

Chapter I – Overview of Housing Programs Funded by HCDD

The Housing and Community Development Department of the City of Houston (HCDD) oversees a number of programs intended to help low- to moderate- income citizens achieve better living accommodations. The City's primary goal is to increase the stock and availability of affordable housing. These programs have a second goal of strengthening Houston's diverse neighborhoods. All funding from the City of Houston must go to properties located within the corporate boundaries of the City.

As detailed in the City's Consolidated Plan, the City of Houston desires to:

- Rehabilitate owner-occupied housing
- Assist first-time homebuyers with down payment and closing costs
- Reduce the burden of rent to very-low-income households
- Assist special-needs populations, including mentally and physically challenged, and elderly households.

The purpose of this Handbook is to describe HCDD's policy objectives, range of programs available, and methodology by which applications for affordable housing project subsidies will be evaluated and chosen for funding.

Rehabilitation of owner-occupied housing is managed by HCDD's Emergency Repair Program. This program is available to elderly or permanently disabled citizens who own their own homes.

Eligibility Requirements:

- The emergency situation or condition must have occurred within the **previous two weeks and without warning**.
- The applicant must be the record owner and occupant of the home to be repaired.
- The applicant must be at least 62 years of age or long-term disabled.
- The applicant's annual income must not exceed 50% of the median income for the city of Houston as published by HUD.
- Property taxes must be current or owner must be paying on a scheduled payment contract.
- The emergency must be determined to be detrimental or a threat to the life, health or safety of the resident.

For further information, please press this button to go to the web site:>>>>>>>>>>

The Homebuyer Assistance Program (HAP) provides financial assistance to low- to moderate- income homebuyers of new or existing structures in the incorporated area of the City. Down payment and closing cost assistance of \$10,000 to \$19,500 is available on a sliding scale to households earning less than 80% of the area median income.

- For further information on the Homebuyer Assistance Program please call 713-522-HOME (4663) or click >>>>>>>>>>>>>>

To reduce the substantial rent-burden of low- to very-low income households, HCDD offers *project subsidies* through low-interest loans for the construction or purchase/rehabilitation of multifamily projects of 16 units or more. HCDD will provide HOME, CDBG, and TIRZ funds, as appropriate, to projects that preserve and create quality affordable housing, leverage other available resources, and help revitalize neighborhoods. Each funding source is subject to specific regulatory restrictions.

Housing Opportunities for Persons with Aids and their families are supported through the HOPWA program. This program administers separately identified funds for housing that is coupled with supportive services. Please refer to the Special Needs button of web site>>>>>>>>>>>>.....

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Chapter II – Application Process

The application process is intended to identify those projects most beneficial to residents of Houston. The process has been established to form an order in which applications will be evaluated and funds expended in support of the creation of affordable rental housing. Periodically, HCDD will open the application process, as funds are available from HUD.

To fund projects in an efficient and predictable manner, the following timeline has been developed:

- 1. Application Period**
- 2. Application Deadline (current deadline: June 9, 2006)**
- 3. Threshold Review (30 days or less)**
- 4. Scoring**
- 5. Conditional Commitments Issued (90 days)**
- 6. Underwriting and Contract Development**
- 7. City Council Approval**
- 8. Closing**
- 9. Construction or Rehabilitation of Project**
- 10. Project Completion Review**
- 11. Initial Rent and Occupancy Monitoring**
- 12. Ongoing Monitoring**

Please read the rest of these Guidelines to understand the steps outlined above.

Chapter III – The Affordable Rental Housing Program (formerly called Multifamily)

I. Eligibility

The City of Houston seeks to expand the supply of quality affordable rental housing available to residents. The City accomplishes this by providing development subsidies, or “gap” financing, to bridge the difference between the amount a project will cost and the amount a diligent developer can raise in the private market through private equity, bank debt, donations, or gifts of in-kind professional services.

The City will **not** fund 100% of the cost of any project.

Eligible Housing Types and Activities:

Single or multi-family dwelling units intended to be available for rent to families permanently.

1. Single-Room-Occupancy developments.
2. Rental properties with specific targeting, such as Elderly or Special Needs.
3. Mixed-income projects that envision a blend of market rate units with HOME-subsidized units.
4. Projects should contain a minimum of 16 units. Projects of less than 16 units may be considered if they are developed by a CHDO *and* funds remain from a funding round after qualified, larger projects have been funded. In no case will a project of fewer than 8 units be considered.
5. Projects may contemplate new construction or rehabilitation of existing structures.

Eligible Borrowers:

- For-Profit and Not-For-Profit developers, acting individually or as participants on a limited partnership or LLC, are eligible applicants. Not-For-Profit entities must provide evidence of IRS tax-exempt status.
- Not-For-Profit entities with extensive community service records may wish to apply for CHDO certification with their Affordable Rental Housing application. If certified as a CHDO, organizations winning HOME funds under this Application may be eligible for operating support in addition to the project-based investment made by HCDD.
- **Applicants and applicant team members must be in good standing with HCDD on all previous loans or loan commitments. There may be no defaults or negative collection actions. There may be no management issues outstanding.** See Debarment in Chapter 3 for details.

Targeting:

Applications should demonstrate that the proposed project contains units targeting households specifically identified in the current Consolidated Plan:

- **Rent-Burdened Elderly Households earning less than 30% of AMI (VLI)** (This typically will mean \$12,800-14,650)
- **Rent-Burdened Small Families earning less than 30% of AMI (VLI)**(This typically will translate to household income of about \$16,450)
- **Rent-Burdened Elderly Households earning less than 50% of AMI (LI)**(This typically means income in the \$21,350-24,400 range)
- **Rent-Burdened Small Families earning less than 50% of AMI. (LI)** (approximately \$27,450)
- **Special needs households:** physically disabled, mentally impaired, AIDS/HIV related or SRO.

Threshold Requirements:

These are the basic requirements of every transaction. A project that does not accomplish the following at a minimum will not be considered for funding.

- **Projects must set aside 10% of HOME-assisted units for households earning less than 30% of AMI per City policy.**
- **Projects must set aside at least an additional 10% of units for households earning 50% or less of AMI per HUD and City policy.**
- **A minimum of ten percent (10%) of a project's costs must be funded by the applicant, through privately raised equity funds.**
- **A minimum of twelve and one-half percent (12.5%) of a project's cost must be in a form of "Match" eligible under HUD regulations.**
 - See Chapter 3 below for details.
- **Combined DCR on all debt will not fall below 1.15X for the first 10 years.**
 - This includes commercial and City/HOME investment;
 - This includes ALL debt.
- **A letter of support from the District City Council Member is required.** (Civic Club, SuperNeighborhood Council, and At-Large Council Member letters are encouraged but not required.)
- **Developer or members of the development team must demonstrate some prior experience with the type of project contemplated in the Application.**
 - Applicants without relevant experience should consider bringing in experienced partners for a first transaction.
- **All construction contracts for assisted properties containing 8 or more units may be subject to Davis Bacon Wage Rates.**
- **Phase I Environmental Site Assessment is required with the Application.**
 - Should further environmental assessment be warranted, the City will work with Applicant to determine project eligibility.

II. Priorities and Selection Criteria

The City will score projects on a scale of 100 points that reflect the City's current priorities as detailed in the Consolidated Plan. Bonus points may be earned for extra credit factors as detailed herein. A minimum of three reviewers will score projects, with the scores averaged for a final score.

Targeting

Possible points: 20

The City will reward projects that include more than the minimum number of very-low (VLI) and low-income (LI) housing units. A weighted average of the unit mix will be calculated to award a percentage of total possible points to each project.

Development Capacity

Possible Points: 20

The City believes that capacity is built incrementally. Accordingly, the City will look at the total number of successful projects completed as well as the size of these projects. The City prefers not to fund a project that is more than 20% larger than a developer's largest previous project. The project reviewer will award from 3-5 points per project completed, with more points given to projects that have been performing for more years. Points may vary by reviewer based on the reviewer's assessment of the Applicant Team's past experience and track record developing affordable housing. Zero points will be awarded to an Applicant team that includes a party in default or material non compliance with respect to a prior loan from HCD.

Management Capacity

Possible Points: 20

The City believes that Property Management skill is critical to the long-term success of an affordable housing project. Reviewer will look at the track record and financial results of Applicant's previous projects. Reviewer will check addresses within the HCAD database to see how project is rated by HCAD. Spot site visits may be performed. A credit check will be performed. Vendor references may be requested. Applicant team members must all be in good standing with HCD or zero points will be awarded.

Consolidated Plan Compliance

Possible Points: 25

The City's Consolidated Plan sets the goals for affordable housing production. The following priorities have been identified by City Council. Projects targeting these groups will receive points as follows:

- Elderly Households earning less than 30% of AMI (15 points)
- Small Families earning less than 30% of AMI (15 points)
- Elderly Households earning less than 50% of AMI (10 points)
- Small Families earning less than 50% of AMI. (10 points)
- Special needs households: (25 points)

- (Physically disabled, mentally impaired, HIV/AIDS related)
- Single Room Occupancy projects (20 points)

Partial points may be earned based on percentage of project targeted toward Plan goals. Percentage of project may be determined by units or by square feet, at the City's discretion.

Leverage

Possible Points: 15

The City wishes to leverage its funds with other sources of affordable housing funds, to maximize housing production in the City. The City has stated that it will not fund 100% of any project; that a minimum of 10% of project costs must be in equity. Projects lacking the 10% equity will not be scored. The City will reward applicants with up to 15 points for obtaining appropriate outside funding and keeping the amount requested from the city to the minimum needed to meet the "gap" and maintain underwriting standards.

Quality of Life

Bonus Points

The City encourages the development of housing options among many neighborhoods by awarding extra points to projects that provide or are located in areas with enhanced amenities.

New projects located within the 100-year flood plain are strongly discouraged. The City will **DEDUCT 15 POINTS from any new construction project contemplated in the 100- year flood plain**. One point may be added back for each feature of flood mitigation provided, up to 7 points. HUD has extensive requirements for construction in a flood plain.

The Department realizes that every possible amenity may not be included in the following list and encourages Applicants to make unique, special features clear within the narrative portion of the application so that extra points may be awarded if deserved.

The following factors will each earn points for a project:

1. Location zoned to an exemplary elementary school: 5 points
2. Location zoned to an acceptable elementary school: 3 points
3. Location within ½ mile of a major transit center or light rail: 5 points
4. Location within ½ mile of a FQHC or other public access health clinic: 5 points
5. Location within ½ mile of the following: 2 points
 - a. Library
 - b. Community center
 - c. Swimming pool
 - d. Park
 - e. Multi-service center
 - f. Pharmacy or major grocery store (HEB, Kroger or similar)

6. Inclusion of the following within a project will add points to the project:
 - a. Community clubhouse, playground, or computer center available at no cost to all tenants: 3 points each
 - b. Security features: up to 3 points
 - c. On site daycare or after school program – 5 points
 - d. Other amenities: developers are welcome to include other features and point these out to reviewers in their application. Items beyond those customarily found in similar projects may earn additional points.
7. Rehabilitation projects within a low or moderate income area will earn 3 additional points.
8. Use of donated land will earn 5 points. See Definitions for an explanation of donated property.

III. Financing Terms and Loan Limits

1. Loan Amounts

Applicants are to make a specific loan request from the City of Houston. The request should be the difference between the Applicant's equity plus commercially available debt, and the project costs ("the gap").

As a policy, the City desires to provide enough funding to each approved transaction to increase the availability of affordable units without over-subsidizing the project or increasing the risk associated with too much leverage in a project. Actual loan amounts will be determined by Underwriting. HOME Loan amounts may be adjusted up or down. However, to assist project developers with planning a reasonable project, the following *guidelines* may be helpful:

- Projects envisioning the use of standard commercial construction debt may request up to 90% of hard costs for units restricted to 30% AMI; 50% of hard costs for units restricted to 50% AMI. These amounts are guidelines only as the City desires to fund only the gap between resources available in the commercial market and the cost of providing affordable units to Houston households.
- Projects envisioning the use of 9% tax credits typically do not require substantial City funds; \$1001 per very low-income unit may be requested *as long as this is used to reduce principal balance of the primary mortgage amount.*
- Projects envisioning the use of 4% tax credits may request an interest free gap loan of 50% of hard cost dollars per unit for all units designated at 50% or less AMI rents.
- A blended interest rate will be calculated for project loans that combine unit subsidy types. This interest should be reflected in the pro-forma project budget.

- A Subsidy Layering Analysis is required by HUD for every transaction to determine the appropriate level of public subsidy; this analysis may modify original projected loan amounts.
- The final loan amount will be determined during Underwriting, and will reflect the amount needed to achieve sustainable affordability for the project. Loan requests may be adjusted up or down to achieve the minimum 1.15x debt coverage ratio required by underwriting guidelines.

2. Loan Limits:

- Applicants may not receive funding if applicant's total related party loans from the HCD portfolio would exceed 10% of the total outstanding portfolio of HCD.
- Applicants are restricted to 2 awards per year.

3. Term:

- Acquisition and construction must be complete within 24 months.
- No loan will be 100% designated toward land acquisition. A portion of every loan will be designated for construction to trigger the performance bond.
- Permanent loans will mature to coincide with senior debt, to a maximum of 30 years.
- HCDD may require repayment earlier than the senior debt if Underwriting indicates that the project can support this.
- HCDD's goal is to be repaid as quickly as possible, so that HOME funds may be reinvested in other needy communities.

4. Repayment:

- During construction, simple interest will accrue on amount borrowed.
- Upon completion of construction or other target date, loans will continue to bear interest and be subject to repayment, subject to specific loan terms defined as part of the underwriting analysis.
- The ten-year income and expense projection should reflect paying the City interest and some repayment of principal over the life of the requested loan.
- Any accrued and unpaid interest will be due in full at the sooner of loan maturity or project refinancing.
- Loans are payable in full at property sale, loan maturity or project refinancing.
- Loans are payable in full in the event of non-compliance or default that are not remedied by the borrower.

5. Interest Rate:

- Interest rates will be targeted to the City's housing production goals.
- Interest rates may change from time to time. Current rates are shown below:

Client AMI served	Interest Rate
< 30%	0%
30% to <50%	0%
50% to <60%	2%
Over 60%	8%

A blended interest rate will be calculated for any loan based on a weighted average of the unit mix.

6. Equity and Match Requirements

Every project must make provision for equity contribution and match contribution from the Applicant. Equity and Match are two different categories, according to the HUD regulations. Further, the requirements differ for non-profit and for-profit developers.

Every project must include 10% of project cost in Equity. This could include cash, debt-free land, or tax credit proceeds invested in a project.

Every project must include 12.5% of project cost in Match.

- ❑ **For-profit developers** must make arrangements for 12.5% of the project cost to be match-eligible **not** including cash equity contributions. Buying land for cash and then donating the land to the project is the simplest way to meet both the HCD Equity and HUD Match requirement.
- ❑ **Non-profit developers** must make arrangements for 12.5% of project cost to be match eligible. Non-profits may document in-kind donations, professional service hours at the regular rate of the service provider for such things as architectural services, legal services, foregone bank “points”, etc., as match-eligible. In addition, plain volunteer hours may be logged and credited at \$10 per hour according to HUD. It is strongly suggested that non-profits keep volunteer log books with date, name of volunteer, and hours served on an ongoing basis to be used for match when needed. A summary may be provided to HCD when the match is used, provided the original documents are retained for the life of the project in case of match audit. Further information on CHDO match may be found on the HCD website in the Community Housing Section.

7. Affordability Covenants:

- All projects are subject to affordability restrictions which limit resident incomes and rents paid based on levels of Area Median Income (AMI) established annually by HUD.
- HOME – assisted designated units are restricted to households earning **less than 60% of AMI at initial occupancy.**

- CDBG or TIRZ funded projects may include funding for units earning up to 80% of AMI.
- Projects are encouraged to include a mix of incomes in a variety of unit sizes to promote income diversity within the City of Houston.
- Affordability must be maintained for a minimum of 5-20 years, depending upon whether the project is new or rehabilitation of existing units, and the amount of subsidy provided. Each award of funds will carry with it specific contractual obligations regarding affordability.

Rehabilitation or Acquisition of Existing Housing	< 15k/unit 15-40k/unit >40k/unit	5 years 10 years 15 years
Refinance of Rehabilitation Project	Any \$ Amount	15 years
New Construction or Acquisition of New Housing	Any \$ Amount	20 years

8. Security:

- A Deed of Trust, Promissory Note, UCC Financing Statement, assignment of all contracts, leases, and rents, and a recorded Special Warranty Deed for Land Use Restriction will be required for every loan.
- **Land Use Restrictions will be recorded in higher priority than any first lien made by a commercial financial institution, and will remain in force despite bankruptcy, sale, or other adverse action taken by any party against the property.**
- **Borrowers are advised to communicate with their commercial lenders about the higher priority of the Land Use Restrictions.**
- Borrower will NOT be permitted to place subsequent liens against a property either in priority or subordinate to City's lien. No additional debt is allowed.

9. Subordination:

- HCD is willing, for acquisition or construction, to subordinate its loan to another lender's lien if required as a condition of that lender's loan commitment. Senior debt must be provided on a fully amortizing basis without a balloon payment.
- Debt structured with a balloon payment will require a co-first-lien position with HCD.

10. Predevelopment Costs:

- May occasionally be recaptured within a project budget if the financial status of the project allows it.
- Will NOT be funded by HCD up front.

11. Transferability:

- Loans or loan commitments are not transferable without prior written consent of HCD.
- A request to transfer a loan or loan commitment must be made in writing with at least 90 days for HCD to review such a request. Such a request should include ALL documentation relevant to financial condition, capacity, etc. provided by the original borrower and should generally improve the strength of the development team.

IV. Application Format

One original Application for the Affordable Rental Program should be submitted in a 3-ring binder, tabbed into sections. Sections I and II provide the complete information necessary for HCDD to analyze a new construction project. Section III is needed only for rehabilitation projects. Tabs for each document in each Section are appreciated.

In addition, four extra copies of Section I materials, and two copies of Sections II and III are requested in tabbed binders, to speed processing and avoid copying delays or errors on the part of HCDD. Please submit your application in the smallest binder possible.

Incomplete Applications will not pass threshold review. HCDD reserves the right to allow correction of minor Administrative Deficiencies (1-2 pages). Incomplete Applications will be returned and may be improved and submitted during the next application acceptance period.

V. Application Forms

The following items are to be included in Section I of the Application Binder:

- **The new Affordable Multifamily Checklist (on line) is designed to help Applicants submit a complete Application. It should be literally checked off as each required document is placed in the submission binder, and signed by the person filing the application on behalf of the Applicant. It is a part of the application.** Attach the \$500 application fee to this form (for-profit only).
- **The Application Forms: (on-line)**
 - General Purpose Application Form
 - Agreement and Certifications form signed by an officer of the Applicant
 - Notarized Indemnity Agreement
 - Notarized Affidavit of Ownership or Control
 - Form A: Contractor Submission List

- **Narrative Description of Project**
- **Detailed Project Construction/Renovation Budget**
- **Sources and Uses of Funds Form**
- **10 Year Income and Expense Projection (the pro-forma)**
- **Letter of Support from City Council District Member**
- Evidence of Site Control
- Project Staffing Plan
- Evidence of Financial Commitments to the project
- Evidence that hard construction costs are reasonable

The following items are to be included in Section II of the Application Binder:

- Market Study
- Phase I Environmental Study
- Appraisals: As-is and As-Completed
- Survey and Engineering Soils Report
- Borrower's last 2 years audited financial statements and 1099s. Audits must be produced within 9 months of close of fiscal year.
- Marketing Plan, including Affirmative Marketing
- Photographs or elevations of proposed project
- Architectural Plans used to prepare Scope of Work

The following items are to be included in Section III of the Application Binder, if the project is a rehabilitation project:

- Must submit prior 3 years' actual operating results, audited or reviewed
- Current Project Rent Roll by Unit, including Tenant names, addresses, and telephone numbers.
- Verification that tenant annual family income does not exceed 60% AMI.
- For properties built before 1978, a lead-based paint risk assessment must be performed. For further information, contact Rhonda Wimberly at 713-868-8313.
- Title Report for project by individual building address.

Application Due Date:

- Applications are due by 5:00 pm on Friday, June 9, 2006 C.S.T
- The Application Fee of \$500 (for-profit entities only) should accompany the Application
- ***Late Applications will be returned unopened.***
- **Applications will be accepted ONLY at the following address:**

**City Secretary's Office
City Hall Annex, Public Level
900 Bagby, Houston, Texas 77002**

VI. The Conditional Commitment

Following the receipt and analysis of applications, the Director of HCDD, in consultation with senior staff, will approve the issuance of Conditional Commitments for Funding to various projects. A Conditional Commitment is a letter stating that the Department recommends funding a project, subject to the development of an appropriate contractual agreement between the City and the project developer.

Usually, there will be some conditions attached to the proposed contract. Items, such as environmental hazard abatement, may have to be addressed. The Conditional Commitment is a letter that says that the City will proceed with a project in good faith, while checking out any uncorroborated promises made by the developer in the application. Underwriting may also reveal deficiencies in an application that will need to be addressed following the issuance of a Conditional Commitment.

Please note the following:

Once an application has been received by the Department of Housing and Community Development, the total project must be in compliance with all federal environmental regulations. Expenditure of any funds for any part of the project is **strictly prohibited** until the department has received approval from HUD. The environmental review process takes 90 days to complete.

If the applicant does not own the land prior to submitting an application for federal assistance, the applicant may enter into an optional agreement to secure its interest in acquiring the land. This will allow HCDD adequate time to complete the HUD environmental review. The cost of the optional agreement should be a nominal portion of the purchase price.

If any funds (public or private) are spent or committed to a project prior to the completion of the environmental review process, the Department of Housing and Community Development will not be able to provide federal funding for the project.

Projects do sometimes fail to materialize after a Conditional Commitment letter is issued. Factors often involved in failure include the following:

Performance Bonds:

- The Contractor shall ALWAYS furnish a performance bond for the full amount of the Construction Contract conditioned upon the Contractor's full performance of the Construction Contract.
- The Contractor shall also furnish a maintenance bond to secure the warranty required under the Construction Contract between the owner and the Contractor.
- Maintenance and performance bonds shall be made payable to the City and the borrower, and be in a form approved by the City Attorney. The surety

upon the bond must be on the current list of accepted sureties on federal bonds published by the United States Treasury Department and/or on the State Board of Insurance list of authorized insurance companies in the State of Texas.

- Alternatives:
 1. Deposit certain United States bonds or notes in an amount equal to the amount of the Construction Contract. A duly executed power of attorney and agreement authorizing the collection or sale of such United States bonds or notes in the event of default shall accompany the deposited bonds and notes
 2. Provide an unconditional letter of credit in a form approved by the City Attorney in the amount of the Construction Contract
 3. Furnish a certified or cashier's check, bank draft, Post Office money order, or U. S. currency, in an amount equal to the amount of the Construction Contract. The Contractor shall make the checks, drafts or money orders payable to the City.

Environmental Issues:

- The City and HUD *strongly* discourage building new projects in the 100-year flood plain.
- HUD requires an 8-step review process for new construction in the 100-year flood plain.
- An Engineering and Soils Test Report is required with the Application to show that the site is suitable for the proposed development.
- Additional environmental review may be required from the perspectives of historic preservation; wetlands; and/or hazardous materials storage on site or nearby.

Related Parties:

- See the Definitions for explanation of who is or is not a related party.
- Fees Paid to Related Parties must be fully disclosed at the time of application. Fees must be customary and reasonable, as solely determined by the City.

Should a project fail to meet the conditions of the contract, HCDD reserves the right to rescind the conditional funding commitment and proceed to the next-highest-priority project identified through the most recent application round, or to add the released funds to the upcoming funding round pool, at its sole discretion.

VII. Underwriting and Contract Development

Underwriting encompasses three separate processes: evaluation of the construction or renovation budget; evaluation of the income and expense (pro forma operating) budget; evaluation of the plan for funding the budget. Standards are summarized below, and are subject to change from time to time:

Construction Budget:

- Borrower is advised to use HCDD's Construction Budget Form at initial application; a budget meeting HUD Section 202 requirements is sufficient for Conditional Commitment.
- Borrower is responsible for meeting budget within 5% of initial projections. Any excess is solely borrower's responsibility to fund through additional equity in project.
- Borrower must use HCDD's Construction Budget Form for underwriting.
- HCD employees with construction costing experience will evaluate project budgets. Projects with costs substantially different from standard may need to raise excess costs via other funding sources.
- Construction interest must be a budgeted development expense.
- Development and other fees limited to 15% of total cost.
- A rent-up reserve for operating costs should be provided in the projections for a period not to exceed 18 months.

Operating Budget:

- 10 year cash flow projection must show debt coverage ratio never falls below **1.15x** on ALL debt.
- Vacancy should be projected at 10%.
- Projections indicate that a minimum of 40% of gross potential income is planned for operating and maintenance expenses.
- Management fees are limited to 5% of gross actual income.
- Escalations for future rent and expense projections will be realistic and will maintain a 1% minimum differential between income and expenses. If income is projected to increase 2% per year, expenses must increase 3%, and so forth.
- Projects will escrow replacement reserves annually of at least \$200 per unit for *every* unit within a project. Escrows will be monitored annually by HCDD. Release of funds from these escrows will be subject to the approval of HCDD as detailed in the specific loan agreement.
- Some portion of the development fee will be earned during the first three operating years.

Plan for Funding the Budget:

- HCDD's Sources and Uses of Funds Form must be completed.
- Equity sources should be identified and marked "committed" or "requested" in the case of grants.
- Debt sources should be identified.
- Outside lender's conditional loan commitment must be in hand. This must be a real commitment, with a firm rate, term, etc, not an "indication of interest".

Following Underwriting, a contract will be developed between the developer and the City. This contract will specify the terms under which the City will provide funding to the project; the number of units to be developed; the term that the units will be maintained as affordable; and other conditions of the agreement.

If the successful Applicant is currently certified as a CHDO, a second contract will be prepared regarding operating support.

VIII. City Council Approval

Once a contract has been developed, it will be placed on the agenda of the Houston City Council. All contracts must be approved by the City Council. For this reason, a letter of support from the district Council Member has been established as a Threshold Requirement. HCDD strongly advises that applicants seek additional letters of support from local civic clubs, neighborhood groups, and/or SuperNeighborhood Council.

IX. Closing and Construction

Following approval of a contract, the closing will be scheduled.

- Construction may begin only with the express written approval (Notice to Proceed) of HCD.
- A Release of Funds notification is also required.
- Prevailing wages must be paid on all projects that include more than 11 rental units, regardless of the number of HOME-assisted units in a project.
 - The federal Davis-Bacon Act ensures that mechanics and laborers employed in construction work under Federally assisted contracts are paid wages and fringe benefits not less than those that prevail in the locality where the work is performed.
 - This Act also provides for the withholding of funds to ensure compliance and excludes from the wage requirements apprentices enrolled in bona fide apprenticeship programs. For more information go to www.dol.gov/esa/programs/dbra/.

X. Project Completion Review

Upon Project Completion, the following must be reviewed:

- Property Inspection by a qualified inspector.
- Certification that property meets all applicable standards
- Lead-based paint requirements have been met.
- Monitors must confirm that only those costs that are eligible have been paid for with HOME funds.
- Costs must be “reasonable and customary” and items paid for must be “suitable”. For example, a bathtub is customary and suitable; a hot tub is not.
- Any change orders must be audited.
- Contractors must submit;
 - Final Invoice
 - Non-Kickback certificate

- Waiver of Liens
 - Executed inspection certificates
 - Warranties.
- Contractors cannot be paid 5% retainage until final completion of all forms and certifications.

XI. Initial Rent and Occupancy Monitoring

HUD requires that program funds benefit appropriate households. Accordingly, at initial occupancy, a review of rental activities and tenants is required.

- 90% of HOME-assisted units must be rented to families with incomes at or below 60% of median income.
- Tenant files must be established to show tenant eligibility, including
 - Tenant's application
 - Income verification documents (wage or income statements)
 - Copy of the HOME limits
 - Any other document used to establish eligibility.
- Tenant leases must not contain any prohibited provisions. These provisions are listed in the Tools section of this website.
- The Fair Housing logo must be on all marketing materials.
- Calculation of rents must be verified (High-HOME and Low-HOME)
- Managers must ensure that a sufficient number of units are leased or held available to meet the targeting requirements detailed in their contracts.

Full details of HUD regulations are available on the HUD website: www.hud.gov

XII. Ongoing Monitoring and Compliance

HCDD will conduct periodic monitoring reviews of the operations of assisted projects. Monitoring is the primary tool that HCDD uses to ensure that federally funded projects are being operated in accordance with program requirements. The following information is presented in outline form, to help applicants understand the ongoing requirements of accepting financial assistance from HCDD:

- During the Affordability Period specified in the Contract, developer will comply with and assist HUD monitoring requirements.
- Properties will be inspected regularly to ensure that they meet or exceed minimum property standards as well as federal standards. HCDD will schedule on-site inspections in accordance with 24 CFR 92.504(d)(1). This provides for inspections a minimum of once every three years.
- Monitoring will follow a rotating schedule with emphasis on at-risk projects. When a concern is identified, follow-up inspections will be scheduled to help find a resolution to the problem.
- Rent and Utility Allowances will be reviewed annually.

- Tenant Recertification will be required periodically.